EAGLE MATERIALS INC
Form 10-K
May 29, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended
March 31, 2008
Commission File No. 1-12984
EAGLE MATERIALS INC.
(Exact name of registrant as specified in its charter)
Delaware
(State of Incorporation)
75-2520779
(I.R.S. Employer Identification No.)
3811 Turtle Creek Blvd, Suite 1100, Dallas, Texas 75219
(Address of principal executive offices)
(214) 432-2000
(Registrant s telephone number)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value $.01 per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO þ

The aggregate market value of the voting stock held by nonaffiliates of the Company at September 28, 2007 (the last business day of the registrants most recently completed second fiscal quarter) was approximately $1.585 billion.

As of May 23, 2008, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, $.01 Par Value	43,440,408

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders of Eagle Materials Inc. to be held on August 6, 2008 are incorporated by reference in Part III of this Report.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Eagle Materials Inc. (the Company or EXP which may be referred to as we , our or us) is a manufacturer of building materials including gypsum wallboard, cement, gypsum and non-gypsum recycled paperboard and concrete and aggregates. We were founded in 1963 as a building materials subsidiary of Centex Corporation (Centex) and we operated as a public company under the name Centex Construction Products, Inc. from April 1994 to January 30, 2004 when Centex completed a tax free distribution of its shares to its shareholders (the Spin-off). Since the date of the Spin-off, we are no longer affiliated with Centex. Today, our primary businesses are the manufacture and distribution of gypsum wallboard and the manufacture and sale of cement. Gypsum wallboard is distributed throughout the U.S. with particular emphasis in the geographic markets nearest to our production facilities. We sell cement in four regional markets and for the twenty-second consecutive year we have sold 100% of our cement production. At March 31, 2008 we operated five gypsum wallboard plants (six board lines), four cement plants (six kilns, one of which belongs to our joint venture company), one recycled paperboard plant, nine concrete batching plants and two aggregates facilities.

Highlights of fiscal year 2008 are as follows:

- We completed the twenty-second consecutive year of selling all of our cement production, as well as achieved our highest mill net of $96.04 per ton; and

- Completed construction of our wallboard plant in Georgetown, South Carolina, on-time and under-budget.

Over the last several years we have maintained the goal of pursuing strategic growth opportunities through expansion or acquisition that improve our low cost position. During fiscal 2008, we focused on the following goals:

Expanding our Wallboard Operations:

We completed construction of a new $150 million synthetic gypsum wallboard plant in Georgetown, South Carolina during December 2007. The project was completed on-time and under-budget and should add 750 million square feet of annual production capacity to our gypsum wallboard segment.

Modernizing and Expanding Our Cement Business:

- We are developing our plans to expand and modernize our Nevada Cement Company plant and our Mountain Cement Company plant. The projects would increase production capacity of Nevada Cement Company and Mountain Cement Company to approximately 1 million tons each. We anticipate beginning the modernization of Nevada Cement, depending on industry conditions, in 2008 with an 18 to 24 month build-out. The expansion of Mountain Cement is anticipated to start about one year after that start of the Nevada Cement project. We anticipate investing a total of approximately $320 million for both projects.

- After the completion of the modernization and expansion of our Nevada Cement and Mountain Cement plants, our total net clinker capacity is expected to increase by 25% to 3.7 million tons per year and our total cement capacity is expected to increase to approximately 4.0 million tons per year.

We continue to be committed to our goal of being a low cost producer in each of the markets in which we compete through exceptional operation of our complicated manufacturing plants and disciplined investment in proven technology. We will also continue to focus on expansion of our geographic footprint through acquisition or expansion of existing facilities that provide increased profitability for our shareholders.

INDUSTRY SEGMENT INFORMATION

For management and financial reporting purposes, our businesses are separated into four segments: Gypsum Wallboard; Cement; Recycled Paperboard; and Concrete and Aggregates. A description of these business segments can be found on pages 3-13.

The following table presents revenues and earnings before interest and income taxes contributed by each of our industry segments during the periods indicated. We conduct one of our four cement plant operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas. We own a 50% interest in the joint venture and account for its interest using the equity method of accounting. However, for segment reporting purposes, we proportionately consolidate our 50% share of the cement joint venture s revenues and operating earnings, which is consistent with the way management organizes the segments within the Company for making operating decisions and assessing performance. Identifiable assets, depreciation, depletion and amortization, and capital expenditures by segment are presented in Note (F) of the Notes to the Consolidated Financial Statements on pages 54-57.

	For the Fiscal Years Ended March 31,		
	2008	2007	2006
	(dollars in millions)		
Revenues:			
Gypsum Wallboard	$ 342.6	$ 511.6	$ 479.1
Cement	345.2	321.9	285.3
Paperboard	133.4	127.5	133.5
Concrete and Aggregates	87.6	97.3	89.8
Other, net	1.5	4.5	2.3
Sub-total	910.3	1,062.8	990.0
Less: Intersegment Revenues	(63.6)	(63.9)	(65.1)
Less: Joint Ventures Revenues	(97.1)	(76.5)	(65.2)
Total Net Revenues	$ 749.6	$ 922.4	$ 859.7
Operating Earnings:			
Gypsum Wallboard	$ 46.0	$ 198.1	$ 154.2
Cement	106.6	92.2	78.3
Paperboard	17.0	19.0	20.1
Concrete and Aggregates	13.1	16.2	9.6
Other, net	1.5	4.5	1.5
Sub-total	184.2	330.0	263.7
Corporate Overhead	(18.8)	(20.3)	(16.4)
Earnings Before Interest and Income Taxes	$ 165.4	$ 309.7	$ 247.3

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Net revenues (net of joint venture and intersegment revenue, see Note (F) in the Notes to the Consolidated Financial Statements) for the past three years from each of our business segments, expressed as a percentage of total net revenues, were as follows:

	For the Fiscal Years Ended March 31,		
	2008	2007	2006
Percentage of Total Net Revenues:			
Gypsum Wallboard	45.7%	55.5%	55.8%
Cement	31.9	25.6	24.9
Paperboard	10.7	8.1	8.9
Concrete and Aggregates:			
Readymix Concrete	8.0	6.7	6.5
Aggregates	3.5	3.6	3.9
Sub-total	11.5	10.3	10.4
Other, net	0.2	0.5	
Total Net Revenues	100.0%	100.0%	100.0%

GYPSUM WALLBOARD OPERATIONS

***Company Operations*.** We currently own and operate five gypsum wallboard manufacturing facilities, comprising six board lines. There are four primary steps in the manufacturing process: (1) gypsum is mined and extracted from the ground (or, in the case of synthetic gypsum, received from the power company); (2) the gypsum is then calcined and converted into plaster; (3) the plaster is mixed with various other materials and water to produce a mixture known as slurry, which is extruded between two continuous sheets of recycled paperboard on a high-speed production line and allowed to harden; and (4) the sheets of gypsum wallboard are then cut to appropriate lengths, dried and bundled for sale. Gypsum wallboard is used to finish the interior walls and ceilings in residential, commercial and industrial construction.

The following table sets forth certain information regarding our plants:

Location	Annual Gypsum Wallboard Capacity (MMSF)(1)	Estimated Minimum Gypsum Rock Reserves (years)	Estimated Gypsum Reserves (million tons)
Albuquerque, New Mexico	450	50+(2)(3)	39(2)
Bernalillo, New Mexico	525	50+(2)(3)	39(2)
Gypsum, Colorado	725	25(4)	16
Duke, Oklahoma	1,300	21(4)(5)	20
Georgetown, South Carolina	750	60(6)	(6)
Total	3,750		

(1) Million Square Feet (MMSF).

(2)

The same reserves serve both New Mexico plants.

(3) Includes mining claims and leased reserves.

(4) Includes both owned and leased reserves.

(5) We expect that additional reserves would be available on satisfactory terms, if required.

(6) The Company has a sixty year supply agreement with Santee Cooper for synthetic gypsum.

Our gypsum wallboard production totaled 2,427 MMSF in fiscal 2008 and 2,638 MMSF in fiscal 2007. Total gypsum wallboard sales were 2,395 MMSF in fiscal 2008 and 2,610 MMSF in fiscal 2007. Total wallboard production as a percentage of current rated capacity was approximately 80% in fiscal 2008 and 91% in fiscal 2007. The Company s operating rates were consistent with industry average capacity utilization in both fiscal 2008 and fiscal 2007.

Raw Materials and Fuel Supplies. We mine and extract natural gypsum rock, the principal raw material used in the manufacture of gypsum wallboard, from mines and quarries owned, leased or subject to mining claims owned by the Company and located near our plants. We also use synthetic gypsum at our Georgetown, South Carolina plant that we obtain through a supply agreement with Santee Cooper, a South Carolina utility company. Two leases cover the New Mexico reserves; one with the Pueblo of Zia and the second with the State of New Mexico. The term of the Zia lease continues for so long as gypsum is produced in paying quantities, as defined in the agreement. The term of the State lease continues for so long as annual lease payments are made. We do not anticipate any problems in continuing to extend the term of these leases for the foreseeable future. Gypsum ore reserves at the Gypsum, Colorado plant are contained within a total of 115 placer claims encompassing 2,300 acres. We also hold mineral rights on an additional 108 unpatented mining claims where mineral rights can be developed upon completion of permitting requirements. We currently own land with over 14 million tons of gypsum in the area of Duke, Oklahoma, with an additional 6 million tons controlled through a lease agreement. Other gypsum deposits are located near the plant in Duke, which we believe may be obtained at reasonable cost when needed. We have a sixty year supply agreement (twenty year term with two twenty year extension options) with a public utility in South Carolina for our synthetic gypsum. Based on the size of the power plant, it is anticipated that the power plant will produce adequate gypsum in the foreseeable future to satisfy our operating needs. If the utility is unable to provide the agreed-upon amount of gypsum, it is responsible for providing gypsum from a third party to fulfill its obligations.

Through our modern low cost paperboard mill we manufacture sufficient quantities of paper necessary for our gypsum wallboard production. Paper is the largest cost component in the manufacture of gypsum wallboard, currently representing approximately one-third of the cost of production.

Our gypsum wallboard manufacturing operations use large quantities of natural gas and electrical power. A significant portion of the Company s natural gas requirements for our gypsum wallboard plants are currently provided by four gas producers under gas supply agreements expiring in March 2009 for Colorado and New Mexico; November 2008 for Oklahoma; and June 2009 for South Carolina. If the agreements are not renewed, we expect to be able to obtain our gas supplies from other suppliers at competitive prices. Electrical power is supplied to our New Mexico plants at standard industrial rates by a local utility. Our Albuquerque plant utilizes an interruptible power supply agreement, which may expose it to some production interruptions during periods of power curtailment. Power for our Gypsum, Colorado facility is generated at the facility by a cogeneration power plant. Currently, the cogeneration power facility supplies power and waste hot gases for drying to the gypsum wallboard plant. We do not sell any power to third parties. Gas costs represent approximately 25% of our production costs.

Sales and Distribution. The principal sources of demand for gypsum wallboard are (i) residential construction, (ii) repair and remodeling, (iii) non-residential construction, and (iv) other markets such as exports and manufactured housing, which we estimate accounted for approximately 38%, 35%, 26% and 1%, respectively, of calendar 2007 industry sales. The gypsum wallboard industry remains highly cyclical; weakening new residential construction has been partially offset by the growth in commercial construction. Also, demand for wallboard can be seasonal and is generally greater from spring through the middle of autumn.

We sell gypsum wallboard to numerous building materials dealers, gypsum wallboard specialty distributors, lumber yards, home center chains and other customers located throughout the United States. One customer with multiple shipping locations accounted for approximately 11% of our total gypsum wallboard sales during fiscal 2008. The loss of this customer could have a material adverse effect on the financial results of the gypsum wallboard segment.

Gypsum wallboard is sold on a delivered basis, mostly by truck. We utilize third-party common carriers for deliveries. Although truck rates have generally been negotiated for the remainder of calendar year 2008, increases in diesel fuel costs are difficult to pass on to the customers and could negatively impact our net revenues if significant or prolonged surcharges were implemented by the carriers.

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Although gypsum wallboard is distributed principally in regional areas, certain industry producers (including the Company) have the ability to ship gypsum wallboard by rail outside their usual regional distribution areas to regions where demand is strong. We own or lease 241 railcars for transporting gypsum wallboard. In addition, in order to facilitate distribution in certain strategic areas, we maintain a distribution center in Albuquerque, New Mexico and four reload yards in Arizona, California and Illinois. Our rail distribution capabilities permit us to service customers in markets on both the east and west coasts. During fiscal 2008, approximately 10% of our sales volume of gypsum wallboard was transported by rail. Equipment availability for both rail and truck shipments is expected to remain consistent during fiscal 2009.

Competition. There are eight manufacturers of gypsum wallboard in the U.S. operating a total of approximately 70 plants. We estimate that the three largest producers USG Corporation, National Gypsum Company and Koch Industries account for approximately 65% of gypsum wallboard sales in the U.S. In general, a number of our competitors in the gypsum wallboard industry have greater financial, manufacturing, marketing and distribution resources than we do. Furthermore, certain of our competitors operate vertically integrated gypsum wallboard distribution centers, which may provide them with certain marketing advantages over us.

Competition among gypsum wallboard producers is primarily on a regional basis and to a lesser extent on a national basis. Because of the commodity nature of the product, competition is based principally on price, which is highly sensitive to changes in supply and demand, and to a lesser extent, on product quality and customer service.

Currently, wallboard production capacity in the United States is estimated at approximately 39 billion square feet per year, which is an increase of approximately 8% from 2005. The Gypsum Association, an industry trade group, estimates that total calendar 2007 gypsum wallboard shipments by U.S. manufacturers were approximately 30.2 billion square feet, resulting in average industry capacity utilization in calendar 2007 of approximately 80%.

Environmental Matters. The gypsum wallboard industry is subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws), impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as the federal Comprehensive Environmental Response, Compensation, and Liability Act (and analogous state laws), impose obligations to clean up or remediate spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. None of our gypsum wallboard operations are presently the subject of any local, state or federal environmental proceedings or inquiries. We do not, and have not, used asbestos in any of our gypsum wallboard products.

Our gypsum wallboard manufacturing process uses a significant amount of energy, especially natural gas. Many scientists and others believe that greenhouse gases, including carbon dioxide, contribute to the warming of the Earth s atmosphere resulting in global climate change. There is an emerging consensus that the federal government will begin regulating the emission of greenhouse gases in the near future. For a discussion of the potential sources of such climate change regulation (including federal, state and regional), see the Environmental Matters section of our cement business description, on pages 8-10.

Although our gypsum wallboard operations could be adversely affected by federal, regional or state climate change initiatives, at this time, it is not possible to accurately estimate how potential future laws or regulations addressing greenhouse gas emissions would impact our business. Any imposition of raw materials or production limitations, fuel-use or carbon taxes or emission limitations or reductions could have a significant impact on the gypsum wallboard manufacturing industry and a material adverse effect on us and our results of operations.

CEMENT OPERATIONS

Company Operations. Our cement production facilities are located in or near Buda, Texas; LaSalle, Illinois; Laramie, Wyoming; and Fernley, Nevada. The LaSalle, Illinois, Laramie, Wyoming and Fernley, Nevada facilities are wholly-owned. The Buda, Texas plant is owned by Texas Lehigh Cement Company LP, a limited partnership joint venture owned 50% by us and 50% by Lehigh Cement Company, a subsidiary of Heidelberg Cement AG. Our LaSalle, Illinois plant operates under the name Illinois Cement Company, the Laramie, Wyoming plant operates under the name of Mountain Cement Company and the Fernley, Nevada plant under the name of Nevada Cement Company.

Cement is the basic binding agent for concrete, a primary construction material. Our modern cement plants utilize dry process technology and at present approximately 85% of our clinker capacity is from preheater or preheater/pre-calciner kilns. The following table sets forth certain information regarding these plants:

Location	Rated Annual Clinker Capacity (M short tons)[1]	Manufacturing Process	Number of Kilns	Kiln Dedication Date	Estimated Minimum Limestone Reserves (Years)
Buda, TX[2]	1,300	Dry 4 Stage Preheater/ Pre-calciner	1	1983	50+[5]
LaSalle, IL	1,000	Dry 5 Stage Preheater/ Pre-calciner	1	2006	36[5]
Laramie, WY	640	Dry 2 Stage Preheater	1	1988	30[6]
		Dry Long Dry Kiln	1	1996	
Fernley, NV	505	Dry Long Dry Kiln	1	1964	50+[6]
		Dry 1 Stage Preheater	1	1969	
Total Gross[3]	3,445				
Total Net[3][4]	2,795				

(1) One short ton equals 2,000 pounds.

(2) The amount shown represents 100% of plant capacity and production. This plant is owned by a

separate limited partnership in which the Company has a 50% interest.

(3) Generally, a plant s cement grinding production capacity is greater than its clinker production capacity.

(4) Net of partner s 50% interest in the Buda, Texas plant.

(5) Owned reserves.

(6) Includes both owned and leased reserves.

Our net cement production, including our 50% share of the cement Joint Venture production, and conversion of purchased clinker, totaled 2.8 million tons in both fiscal 2008 and fiscal 2007. Total net cement sales, including our 50% share of cement sales from the Joint Venture, were 3.4 million tons in fiscal 2008 and 3.2 million tons in fiscal 2007 as all four plants sold 100% of the production capacity. During the past two years, we imported and purchased cement from others to be resold. Purchased cement sales typically occur at lower gross profit margins. In fiscal 2008, 19% of the cement sold by us was acquired from outside sources, compared to 26% in fiscal 2007. Texas Lehigh Cement Company, our 50% joint venture, owns a minority interest in an import terminal in Houston, Texas. Texas Lehigh can purchase up to 495,000 short tons annually from the cement terminal.

Cement production is capital-intensive and involves high initial fixed costs. We previously announced plans to modernize and expand our Nevada Cement and Mountain Cement facilities, which are our oldest and least efficient plants. The project at Nevada Cement Company is expected to begin in 2008, depending on

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industry conditions and should be completed in approximately 18 to 24 months. The project at Mountain Cement Company is expected to begin about one year after the start of the Nevada Cement project and should also be completed in 18 to 24 months. Upon completion of these projects, Mountain Cement Company and Nevada Cement Company each will have rated annual clinker capacity of approximately 1 million tons, raising net clinker capacity to nearly 3.7 million tons.

Raw Materials and Fuel Supplies. The principal raw material used in the production of portland cement is calcium carbonate in the form of limestone. Limestone is obtained principally through mining and extraction operations conducted at quarries that we own or lease and are located in close proximity to our plants. We believe that the estimated recoverable limestone reserves owned or leased by us will permit each of our plants to operate at our present production capacity for at least 30 years. Other raw materials used in substantially smaller quantities than limestone are sand, clay, iron ore and gypsum. These materials are readily available and can either be obtained from Company-owned or leased reserves or purchased from outside suppliers.

Our cement plants use coal and coke as their primary fuel, but are equipped to burn natural gas as an alternative. The cost of delivered coal and coke rose in fiscal 2008 and is expected to rise again in fiscal 2009. We have not used hazardous waste-derived fuels in our plants, although our LaSalle, Illinois and Buda, Texas plants have been permitted to burn scrap tires as a substitute fuel. Electric power is also a major cost component in the manufacturing process and we have sought to diminish overall power costs by adopting interruptible power supply agreements. These agreements may expose us to some production interruptions during periods of power curtailment.

Sales and Distribution. Demand for cement can be cyclical, because demand for concrete products is derived from demand for construction, with public works contracts comprising over 50% of total demand. Construction spending and cement consumption remained stable throughout calendar 2007, but have shown some signs of softening during the first three months of calendar 2008. The construction sector is also affected by the general condition of the economy as well as regional economic influences. Regional cement markets experience peaks and valleys correlated with regional construction cycles. Additionally, demand for cement is seasonal, particularly in northern states where inclement winter weather affects construction activity. Sales are generally greater from spring through the middle of autumn than during the remainder of the year. The impact to our business of regional construction cycles may be mitigated to some degree by our geographic diversification.

The following table sets forth certain information regarding the geographic area served by each of our cement plants and the location of our distribution terminals in each area. We have a total of 11 cement storage and distribution terminals that are strategically located to extend the sales areas of our plants.

Plant Location	Principal Geographic Areas	Distribution Terminals
Buda, Texas	Texas and western Louisiana	Corpus Christi, Texas Houston, Texas Orange, Texas Roanoke (Ft. Worth), Texas Waco, Texas Houston Cement Company (Joint Venture), Houston, Texas
LaSalle, Illinois	Illinois and southern Wisconsin	Hartland, Wisconsin
Laramie, Wyoming	Wyoming, Utah, Colorado and western Nebraska	Salt Lake City, Utah Denver, Colorado North Platte, Nebraska
Fernley, Nevada	Northern Nevada and northern California	Sacramento, California

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Cement is distributed directly to our customers mostly through customer pickups by common carriers from plants or distribution terminals. We transport cement principally by rail to our storage and distribution terminals. No single customer accounted for 10% or more of our cement segment sales during fiscal 2008. Sales are made on the basis of competitive prices in each area. As is customary in the industry, we do not typically enter into long-term sales contracts.

Competition. The cement industry is extremely competitive as a result of multiple domestic suppliers and the importation of foreign cement through various terminal operations. Approximately 85% of the U.S. cement industry is owned by foreign international companies. Competition among producers and suppliers of cement is based primarily on price, with consistency of quality and service to customers being important but of lesser significance. Price competition among individual producers and suppliers of cement within a geographic area is intense because of the fungible nature of the product. Because of cement s low value-to-weight ratio, the relative cost of transporting cement on land is high and limits the geographic area in which each company can market its products profitably; therefore, the U.S. cement industry is fragmented into regional geographic areas rather than a single national selling area. No single cement company has a distribution of plants extensive enough to serve all geographic areas, so profitability is sensitive to shifts in the balance between regional supply and demand.

Cement imports into the U.S. occur primarily to supplement domestic cement production. Cement is typically imported into deep water ports or transported on the Mississippi River system near major population centers to take advantage of lower waterborne freight costs versus higher truck and rail transportation costs that U.S. based manufacturers incur to deliver into the same areas.

The U.S. Government and the Government of Mexico entered into an agreement in April 2006 providing for the elimination of the antidumping duties imposed by the U.S. on cement imported from Mexico. The agreement provides for a three year transition period during which the volume of Mexican cement imported into the southern tier of the U.S. is limited to approximately 3 million metric tons per year and the antidumping duty imposed on Mexican cement is $3 per ton. This is not expected to impact cement prices in the short term as the Portland Cement Association (PCA) estimates that the current industry wide domestic production capacity is approximately 10% short of domestic consumption.

The PCA estimates that imports represented approximately 21% of cement used in the U.S. during calendar 2007 as compared with approximately 29% in 2006 and 25% in 2005.

Environmental Matters. Our cement operations are subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws) impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) (and analogous state laws) impose obligations to clean up or remediate spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. We believe that we have obtained all the material environmental permits that are necessary to conduct our operations. We further believe that we are conducting our operations in substantial compliance with these permits. In addition, none of our sites is listed as a CERCLA Superfund site.

Four environmental issues involving the cement manufacturing industry deserve special mention. The first issue involves cement kiln dust or CKD. The federal Environmental Protection Agency, or EPA, has been evaluating the regulatory status of CKD under the federal Resource Conservation and Recovery Act (RCRA) for a number of years. In 1999, the EPA proposed a rule that would allow states to regulate properly-managed CKD as a non-hazardous waste under state laws and regulations governing solid waste. In contrast, CKD that was not properly managed would be treated as a hazardous waste under RCRA. In 2002, the EPA confirmed its intention to exempt properly-managed CKD from the hazardous waste requirements of RCRA. The agency announced that it would collect additional data over the next three to five years to determine if the states regulation of CKD is effective, which may lead the EPA to withdraw its 1999 proposal to treat any CKD as a hazardous waste. In May 2008, the EPA indicated that it continues to consider an approach whereby it would finalize its 1999 proposal to exempt properly-managed CKD wastes and establish protective CKD management standards; however, as of May 2008 the EPA has reported that it is uncertain when its proposal will be finalized.

Currently, substantially all CKD produced in connection with our ongoing operations is recycled, and therefore such CKD is not viewed as a waste under RCRA. However, CKD was historically collected and stored on-site at our Illinois, Nevada and Wyoming cement plants and at a former plant site in Corpus Christi, Texas, which is no longer in operation. If either the EPA or the states decide to impose management standards on this CKD at some point in the future, we could incur additional costs to comply with those requirements with respect to our historically collected CKD. CKD that comes in contact with water might produce a leachate with an alkalinity high enough to be classified as hazardous and might also leach certain hazardous trace metals therein.

A second industry environmental issue involves the historical disposal of refractory brick containing chromium. Such refractory brick was formerly used widely in the cement industry to line cement kilns. We currently do not use refractory containing chromium, and crush spent refractory brick, which is used as raw feed in the kiln.

A third industry environmental issue involves the potential regulation of the emission of greenhouse gases, including carbon dioxide. Many scientists and others believe that greenhouse gases contribute to the warming of the Earth s atmosphere resulting in global climate change. There is emerging consensus that the federal government will begin regulating the emission of greenhouse gases in the near future. The consequences of greenhouse gas emission reduction measures for our cement operations are potentially significant because (1) the cement manufacturing process requires the combustion of large amounts of fuel to generate very high kiln temperatures, and (2) the production of carbon dioxide is a byproduct of the calcination process, whereby carbon dioxide is removed from calcium carbonate to produce calcium oxide.

Potential regulation of greenhouse gas emissions may originate from several sources currently considering the global climate change issue. Federally, the U.S. Congress is considering climate change legislation to restrict greenhouse gas emissions. One bill recently approved by the U.S. Senate Environmental and Public Works Committee, known as the Lieberman-Warner Climate Security Act, or S.2191, would require a reduction in emissions of greenhouse gases from sources within the United States to 70% below 2005 levels by 2050. The Lieberman-Warner bill proposes a cap and trade scheme of regulation of greenhouse gas emissions a ban on emissions above a defined declining annual cap. Debate and a possible vote on this bill by the full Senate may occur within the coming year. The U.S. House of Representatives is considering similar legislation, including the possibility of a carbon tax. An April 2007 U.S. Supreme Court decision (*Massachusetts v. EPA*), relating to the regulation of carbon dioxide emissions from motor vehicles under the Clean Air Act, held that greenhouse gases including carbon dioxide fall under the federal Clean Air Act s definition of air pollutant. The *Massachusetts* decision may eventually result in regulation of carbon dioxide and other greenhouse gas emissions from stationary sources (such as manufacturing facilities) under certain Clean Air Act programs.

Several state and regional initiatives are considering or have adopted similar climate change legislation. Approximately one-third of the states have taken measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories or registries and/or regional greenhouse gas cap and trade programs. For example, California Governor Arnold Schwarzenegger signed AB 32 into law in late 2006, calling for a cap on greenhouse gas emissions throughout California and a statewide reduction to 1990 levels by 2020. Regional initiatives include the Regional Greenhouse Gas Initiative in the northeast, the Western Regional Climate Action Initiative and the Midwestern Greenhouse Gas Accord.

Although our cement operations are not adversely affected by federal, regional or state climate change initiatives, at this time, it is not possible to accurately estimate how potential future laws or regulations addressing greenhouse gas emissions would impact our business. Any imposition of raw materials or production limitations, fuel-use or carbon taxes or emission limitations or reductions could have a significant impact on the cement manufacturing industry and a material adverse effect on us and our results of operations.

Fourth, the EPA has promulgated regulations for certain toxic air pollutants, including standards for portland cement manufacturing. The maximum attainable control technology standards require cement plants to test for certain pollutants and meet certain emission and operating standards. We have no reason to believe, however, that these standards have placed us at a competitive disadvantage.

We believe that our current procedures and practices in our operations, including those for handling and managing hazardous materials, are consistent with industry standards and are in substantial compliance with applicable environmental laws and regulations. Nevertheless, because of the complexity of our operations and the environmental laws to which we are subject, there can be no assurance that past or future operations will not result in violations, remediation or other liabilities or claims. Moreover, we cannot predict what environmental laws will be enacted or adopted in the future or how such future environmental laws or regulations will be administered or interpreted. Compliance with more stringent environmental laws, or stricter interpretation of existing environmental laws, could necessitate significant capital outlays.

Capital Expenditures. We had capital expenditures related to compliance with environmental regulations applicable to our cement operations of $3.6 million during fiscal 2008 and expect to spend an additional $3.4 million during fiscal 2009. The majority of these expenditures relate to the addition of a baghouse at Mountain Cement Company and upgrades to the baghouse compartments at Illinois Cement Company.

RECYCLED PAPERBOARD OPERATIONS

Company Operations. Our recycled paperboard manufacturing operation, acquired in November 2000, is located in Lawton, Oklahoma. The paperboard company, which we refer to as Republic, operates a state-of-the-art paper mill producing high-quality, low-basis weight gypsum liner paper for the wallboard industry from 100% recycled fiber. Manufacturing capabilities at Republic, aside from the gypsum liner products, include recycled containerboard grades (linerboard and medium) and lightweight recycled paper for paper bags. In addition, recycled industrial paperboard grades (tube/core stock and protective angle board) are produced to maximize manufacturing efficiencies.

The Mill. Our paperboard operation has a highly technologically advanced paper machine designed for gypsum liner production, providing it with stability and longevity of output. The paper s uniform cross-directional strength and finish characteristics facilitate the efficiencies of new high-speed wallboard manufacturing lines.

The paperboard operation manufactures high-strength gypsum liner that is approximately 10% lighter in basis weight than generally available in the U.S. The low-basis weight product utilizes less recycled fiber to produce paper that, in turn, absorbs less moisture during the gypsum wallboard manufacturing process resulting in reduced drying and energy (natural gas) usage. The low-basis weight paper also reduces the overall finished board weight, providing wallboard operations with more competitive transportation costs both the inbound and outbound segments.

Raw Materials. The principal raw materials are recycled paper fiber (recovered waste paper), water and specialty paper chemicals. The largest waste paper source used by the operation is old cardboard containers (known as OCC). A blend of high grades (white papers consisting of ink-free papers such as news blank and unprinted papers) is used in the facing paper to produce a white product with customer-desired properties.

We believe that an adequate supply of OCC recycled fiber will continue to be available from generators and brokers located within a 600 mile radius of the paper mill. The majority of the recycled fiber purchased is delivered via truck, with a limited amount (5%) delivered by rail. Prices are subject to market fluctuations based on generation of material (supply), demand and the presence of the export market. The current outlook for fiscal year 2009 is for waste paper prices to remain flat for the first half of fiscal 2009 and increase moderately thereafter, largely due to exports to China. Current customer contracts include price escalators that partially offset/compensate for changes in raw material fiber prices.

The chemicals used in the paper making operation, including size, retention aids, dry strengths additives, biocides and bacteria controls, are readily available from several manufacturers at competitive prices. We are under a contractual agreement with our current supplier through December 2010.

The manufacture of recycled paperboard involves the use of large volumes of water in the production process. The mill uses water provided under an agreement with the City of Lawton, Oklahoma municipal services. The agreement, which commenced in calendar year 1999, is for a fifteen year term with two automatic five-year extensions, unless we notify the City in writing at least six months prior to the expiration of the term or extended term. Although adequate sources of water have historically been available, an extended period of general water shortages, legal curtailment of any paper mill s current water sources or uses, or deterioration of the current quality of water could adversely affect the operations, thereby limiting our production capacity.

Electricity, natural gas and other utilities rates are available to us at either contracted rates or standard industrial rates in adequate supplies. These utilities are subject to standard industrial curtailment provisions. In the event that a natural gas curtailment or unfavorable pricing condition should occur, the Lawton mill is equipped to use fuel oil as an alternative fuel in the No.1 boiler.

Paperboard operations are generally large consumers of energy, primarily natural gas and electricity. During fiscal 2008, natural gas pricing was slightly greater than the previous year. If natural gas prices continue to increase, they are expected to negatively impact fiscal 2009 production costs and operating earnings. The paper mill is subject to an electricity supply agreement with Public Service of Oklahoma (PSO); however, this power company has a large dependency on natural gas, which could negatively impact the electricity rates.

Sales and Distribution. Our manufactured recycled paperboard products are sold primarily to gypsum wallboard manufacturers. During fiscal 2008, approximately 35% of the recycled paperboard sold by the paper mill was consumed by the Company s gypsum wallboard manufacturing operations, approximately 40% was sold to CertainTeed, pursuant to a paper supply contract (the CertainTeed Agreement), and the remainder was shipped to containerboard and paper bag manufacturers. The existing CertainTeed Agreement was originally entered into by Republic Paperboard and James Hardie Gypsum, Inc. in 1999; however, the James Hardie North American gypsum wallboard operations were acquired by BPB Gypsum, whose operations were then purchased during fiscal 2006 by St. Gobain. St. Gobain North American operations operate under the CertainTeed trade name. The loss of CertainTeed as a customer or a termination or reduction of CertainTeed s production of gypsum wallboard, unless replaced by a commercially similar arrangement, could have a material adverse effect on the Company.

Environmental Matters. Prior to November 2000, our now closed Commerce City, Colorado paper mill (the Commerce City Mill) had investigated the presence of subsurface petroleum hydrocarbons at the mill site and had retained an environmental consultant who concluded that fuel oil, jet fuel, and gasoline additives had migrated in the subsurface of the property from an adjacent property. As a result of an additional subsequent investigation by the Commerce City Mill, new environmental conditions were uncovered that appear to stem from underground storage tank use on the mill site. The Commerce City Mill and a former owner of the Commerce City Mill have entered into a participation agreement with the Division of Oil and Public Safety of the Colorado Department of Labor and Employment (the Oil Division) to respond to those conditions that appear to stem from historic underground storage tank use. Under the participation agreement, the Commerce City mill will pay 25% (with the former owner paying 75%) of the costs associated with the investigation and remediation efforts approved by both parties. The former owner and we have each approved and submitted to the Colorado Oil Division a Corrective Action Plan (the CAP) for the removal of the subsurface petroleum hydrocarbon at the Commerce City Mill. The CAP was approved by the Colorado Oil Division in calendar 2002. All remediation has been completed and we are awaiting final approval by the State of Colorado.

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CONCRETE AND AGGREGATES OPERATIONS

Company Operations. Readymix concrete is a versatile, low-cost building material used in almost all construction. The production of readymix concrete involves the mixing of cement, sand, gravel, or crushed stone and water to form concrete, which is then sold and distributed to numerous construction contractors. Concrete is produced in batch plants and transported to the customer s job site in mixer trucks.

The construction aggregates business consists of the mining, extraction, production and sale of crushed stone, sand, gravel and lightweight aggregates such as expanded clays and shales. Construction aggregates of suitable characteristics are employed in virtually all types of construction, including the production of portland cement concrete and asphaltic mixes in highway construction and maintenance.

We produce and distribute readymix concrete from company-owned sites north of Sacramento, California and in Austin, Texas. The following table sets forth certain information regarding these operations:

Location	Number of Plants	Number of Trucks
Northern California	3	43
Austin, Texas	6	85
Total	9	128

We conduct aggregate operations near our concrete facilities in northern California and Austin, Texas. Aggregates are obtained principally by mining and extracting from quarries owned or leased by the Company. The following table sets forth certain information regarding these operations:

Location	Types of Aggregates	Estimated Annual Production Capacity (Thousand tons)	Estimated Minimum Reserves (Years)
Northern California	Sand and Gravel	3,500	100+(1)
Austin, Texas	Limestone	2,500	52(2)
Total		6,000	

(1) Owned reserves through various subsidiaries.

(2) Leased reserves.

Our total net aggregate sales were 3.8 million tons in fiscal 2008 and 4.9 million tons in fiscal 2007. Total aggregates production was 5.1 million tons for fiscal 2008 and 5.6 million for fiscal 2007. A portion of our total aggregates production is used internally by our readymix concrete operations.

Raw Materials. We supply from our manufactured cement facilities approximately 100% and 0% of the cement requirements for our Austin and northern California concrete operations, respectively. We supply approximately 54% and 46%, respectively, of our aggregates requirements for our Austin and northern California concrete operations. We obtain the balance of our cement and aggregates requirements from multiple sources in each of these areas.

We mine and extract limestone, sand and gravel, the principal raw materials used in the production of aggregates, from quarries owned or leased by us and located near our plants. The northern California quarry is estimated to contain over one billion tons of sand and gravel reserves. The Austin, Texas quarry is covered by a lease which expires in 2060. Based on its current production capacity, we estimate our northern California and Austin, Texas quarries contain over 100 years and approximately 52 years of reserves, respectively.

Sales and Distribution. Demand for readymix concrete and aggregates largely depend on local levels of construction activity. The construction sector is subject to weather conditions, the availability of financing at reasonable rates and overall fluctuations in local economies, and therefore tends to be cyclical. We sell readymix concrete to numerous contractors and other customers in each plant s selling area. Our batch plants in Austin and northern California are strategically located to serve each selling area. Concrete is delivered from the batch plants by trucks owned by us.

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We sell aggregates to building contractors and other customers engaged in a wide variety of construction activities. Aggregates are delivered from our aggregate plants by common carriers and customer pick-up. One customer accounted for approximately 11% of our segment revenues in fiscal 2008. We are continuing our efforts to secure a rail link from our principal aggregates deposit north of Sacramento, California to supply extended markets in northern California.

Competition. Both the concrete and aggregates industries are highly fragmented, with numerous participants operating in each local area. Because the cost of transporting concrete and aggregates is very high relative to product values, producers of concrete and aggregates typically can profitably sell their products only in areas within 50 miles of their production facilities. Barriers to entry in each industry are low, except with respect to environmental permitting requirements for new aggregate production facilities and zoning of land to permit mining and extraction of aggregates.

Environmental Matters. The concrete and aggregates industry is subject to environmental regulations similar to those governing our cement operations. None of our concrete or aggregates operations are presently the subject of any material local, state or federal environmental proceeding or inquiries.

EMPLOYEES

As of March 31, 2008, we had approximately 1,600 employees.

As of March 31, 2008, we had approximately 400 employees employed under collective bargaining agreements and various supplemental agreements with local unions.

WHERE YOU CAN FIND MORE INFORMATION

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available free of charge through the investor relations page of our website, located at *www.eaglematerials.com* as soon as reasonably practicable after they are filed with or furnished to the SEC. This reference to our website is merely intended to suggest where additional information may be obtained by investors, and the materials and other information presented on our website are not incorporated in and should not otherwise be considered part of this Report. Alternatively, you may contact our investor relations department directly at (214) 432-2000 or by writing to Eagle Materials Inc., Investor Relations, 3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas 75219.

ITEM 1A. RISK FACTORS

The foregoing discussion of our business and operations should be read together with the risk factors set forth below. They describe various risks and uncertainties to which we are or may become subject, many of which are outside of our control. These risks and uncertainties, together with other factors described elsewhere in this Report, have affected, or may in the future affect, our business, operations, financial condition and results of operations in a material and adverse manner.

We are affected by the level of demand in the construction industry, which is currently experiencing a significant downturn in the residential construction sector.

Demand for our products is directly related to the level of activity in the construction industry, which includes residential, commercial and infrastructure construction. In particular, the downturn in residential construction has, and will likely continue to, adversely impact our wallboard business. This downturn became more pronounced in mid-2007, as a result of, among other things, a decrease in liquidity and a tightening of loan standards in the residential mortgage financing markets. Furthermore, activity in the infrastructure construction business is directly related to the amount of government funding available for such projects. Any decrease in the amount of government funds available for such projects or any decrease in construction activity in general (including a continued decrease in residential construction or a weakening of commercial production) could have a material adverse effect on our business, financial condition and results of operations.

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Increases in interest rates could adversely affect demand for our products, which would have an adverse effect on our results of operations.

Our business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity. Higher interest rates could result in decreased demand for our products, which would have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to borrowings under our credit facilities.

Our customers participate in cyclical industries, which are subject to industry downturns.

A majority of our revenues are from customers who are in industries and businesses that are cyclical in nature and subject to changes in general economic conditions. In addition, since operations occur in a variety of geographic markets, our businesses are subject to the economic conditions in each such geographic market. General economic downturns or localized downturns in the regions where we have operations, including any downturns in the residential or commercial construction industries, have the potential of adversely affecting demand for our products. Furthermore, additions to the production capacity of industry participants, particularly in the gypsum wallboard industry, have the potential of creating an imbalance between supply and demand, which could adversely affect the prices at which we sell our products. In general, any further downturns in the industries to which we sell our products or any further increases in capacity in the gypsum wallboard, paperboard and cement industries, could have a material adverse effect on our business, financial condition and results of operations.

Our operations and our customers are subject to extensive governmental regulation, which can be costly and burdensome.

Our operations and our customers are subject to and affected by federal, state and local laws and regulations with respect to such matters as land usage, street and highway usage, noise level and health and safety and environmental matters. In many instances, various certificates, permits or licenses are required in order to conduct our business or for construction and related operations. Although we believe that we are in compliance in all material respects with regulatory requirements, there can be no assurance that we will not incur material costs or liabilities in connection with regulatory requirements or that demand for our products will not be adversely affected by regulatory issues affecting our customers. In addition, future developments, such as the discovery of new facts or conditions, stricter laws or regulations, or stricter interpretations of existing laws or regulations, may impose new liabilities on us, require additional investment by us or prevent us from opening or expanding plants or facilities, any of which could have a material adverse effect on our financial condition or results of operations.

Our products are commodities, which are subject to significant changes in supply and demand and price fluctuations.

The products sold by us are commodities and competition among manufacturers is based largely on price. The prices for cement are currently at levels higher than those experienced in recent years, while prices for wallboard have declined significantly as a result primarily of the decline in residential construction. Prices are often subject to material changes in response to relatively minor fluctuations in supply and demand, general economic conditions and other market conditions beyond our control. Increases in the production capacity for products such as gypsum wallboard or cement may create an oversupply of such products and negatively impact product prices. There can be no assurance that prices for products sold by us will not decline in the future or that such declines will not have a material adverse effect on our business, financial condition and results of operations.

Our business is seasonal in nature, and this causes our quarterly results to vary significantly.

A majority of our business is seasonal with peak revenues and profits occurring primarily in the months of April through November when the weather in our markets is more favorable to construction activity. Quarterly results have varied significantly in the past and are likely to vary significantly from quarter to quarter in the future. Such variations could have a negative impact on the price of our common stock.

We are subject to the risk of unfavorable weather conditions during peak construction periods and other unexpected operational difficulties.

Because a majority of our business is seasonal, unfavorable weather conditions and other unexpected operational difficulties during peak periods could adversely affect operating income and cash flow and could have a disproportionate impact on our results of operations for the full year.

Our debt agreements contain restrictive covenants and require us to meet certain financial ratios and tests, which limit our flexibility and could give rise to a default if we are unable to remain in compliance.

Our amended and restated credit agreement and the note purchase agreements governing our senior notes contain, among other things, covenants that limit our ability to finance future operations or capital needs or to engage in other business activities, including our ability to:

Incur additional indebtedness;

Sell assets or make other fundamental changes;

Engage in mergers and acquisitions;

Pay dividends and make other restricted payments;

Make investments, loans, advances or guarantees;

Encumber the assets of the Company and its restricted subsidiaries;

Enter into transactions with our affiliates.

In addition, these agreements require us to meet and maintain certain financial ratios and tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. Events beyond our control, including changes in general business and economic conditions may impair our ability to comply with these covenants or meet those financial ratios and tests. A breach of any of these covenants or failure to maintain the required ratios and meet the required tests may result in an event of default under those agreements. This may allow the lenders under those agreements to declare all amounts outstanding thereunder to be immediately due and payable, terminate any commitments to extend further credit to us and pursue other remedies available to them under the applicable agreements. If this occurs, our indebtedness may be accelerated and we may not be able to refinance the accelerated indebtedness on favorable terms, or at all, or repay the accelerated indebtedness.

Our results of operations are subject to significant changes in the cost and availability of fuel, energy and other raw materials.

Significant increases in the cost of fuel, energy or raw materials used in connection with our businesses or substantial decreases in their availability could materially and adversely affect our sales and operating profits. Major cost components in each of our businesses are the cost of fuel, energy and raw materials. Prices for fuel, energy or raw materials used in connection with our businesses could change significantly in a short period of time for reasons outside our control. Prices for natural gas and electrical power, which are significant components of the costs associated with our gypsum wallboard and cement businesses, have increased significantly in recent years and are expected to increase in the future. In the event of large or rapid increases in prices, we may not be able to pass the increases through to our customers in full, which would reduce our operating margin.

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Our production facilities may experience unexpected equipment failures, catastrophic events and scheduled maintenance.

Interruptions in our production capabilities may cause our productivity and results of operations to decline significantly during the affected period. Our manufacturing processes are dependent upon critical pieces of equipment. Such equipment may, on occasion, be out of service as a result of unanticipated events such as fires, explosions, violent weather conditions or unexpected operational difficulties. We also have periodic scheduled shut-downs to perform maintenance on our facilities. Any significant interruption in production capability may require us to make significant capital expenditures to remedy problems or damage as well as cause us to lose revenue due to lost production time, which could have a material adverse effect on our results of operations and financial condition.

We operate in a highly competitive market, and our failure to compete effectively could adversely affect our business, financial condition and results of operations.

The construction products industry is highly competitive. If we are unable to keep our products competitively priced, our sales could be reduced materially. Also, we may experience increased competition from companies offering products based on new processes that are more efficient or result in improvements in product performance, which could put us at a disadvantage and cause us to lose customers and sales volume. Our failure to continue to compete effectively could have a material adverse effect on our business, financial condition and results of operations.

We may become subject to significant clean-up, remediation and other liabilities under applicable environmental laws.

Our operations are subject to state, federal and local environmental laws and regulations, which impose liability for cleanup or remediation of environmental pollution and hazardous waste arising from past acts; and require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of our operations. Certain of our operations may from time-to-time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Additionally, any future laws or regulations addressing greenhouse gas emissions would likely have a negative impact on our business or results of operations, either through the imposition of raw material or production limitations, fuel-use or carbon taxes or emission limitations or reductions although we are unable to accurately estimate the impact on our business or results of operations of any such law or regulation at this time. Risk of environmental liability (including the incurrence of fines, penalties or other sanctions or litigation liability) is inherent in the operation of our businesses. As a result, it is possible that environmental liabilities and compliance with environmental regulations could have a material adverse effect on our operations in the future.

Significant changes in the cost and availability of transportation could adversely affect our business, financial condition and results of operations.

Some of the raw materials used in our manufacturing processes, such as coal or coke, are transported to our facilities by truck or rail. In addition, the transportation costs associated with the delivery of our wallboard products are a significant portion of the variable cost of our gypsum wallboard segment. Significant increases in the cost of fuel or energy can result in material increases in the cost of transportation which could materially and adversely affect our operating profits. In addition, reductions in the availability of certain modes of transportation such as rail or trucking could limit our ability to deliver product and therefore materially and adversely affect our operating profits.

Events that may disrupt the U.S. or world economy could adversely affect our business, financial condition and results of operations.

Future terrorist attacks, and the ensuing U.S. military and other responsive actions, could have a significant adverse effect on the general economic, market and political conditions, which in turn could have material adverse effect on our business.

In general, we are subject to the risks and uncertainties of the construction industry and of doing business in the U.S. The forward-looking statements are made as of the date of this report, and we undertake no obligation to update them, whether as a result of new information, future events or otherwise. See Forward Looking Statements in Item 7. below.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved Staff comments.

ITEM 2. PROPERTIES

We operate cement plants, quarries and related facilities at Buda, Texas; LaSalle, Illinois; Fernley, Nevada and Laramie, Wyoming. The Buda plant is owned by a partnership in which we have a 50% interest. Our principal aggregate plants and quarries are located in the Austin, Texas area and Marysville, California. In addition, we operate gypsum wallboard plants in Albuquerque and nearby Bernalillo, New Mexico; Gypsum, Colorado; Duke, Oklahoma; and in Georgetown, South Carolina. We produce recycled paperboard at Lawton, Oklahoma. None of our facilities are pledged as security for any debts.

See Item 1. Business on pages 1-13 of this Report for additional information relating to the Company s properties.

ITEM 3. LEGAL PROCEEDINGS

We are a party to certain ordinary legal proceedings incidental to our business. In general, although the outcome of litigation is inherently uncertain, we believe that all of the pending litigation proceedings in which the Company or any subsidiary are currently involved are likely to be resolved without having a material adverse effect on our consolidated financial condition or operations.

As previously reported, in connection with the audit of our federal income tax returns for the fiscal years ended March 31, 2001, 2002, and 2003, the Internal Revenue Service (IRS) issued an Exam Report and Notice of Proposed Adjustment on November 9, 2007, in which it proposes to deny certain depreciation deductions claimed by us with respect to assets acquired by us from Republic Group LLC in a transaction completed in November 2000. In November 2007 we paid the IRS approximately $45.8 million to avoid the imposition of large corporate tax underpayment interest. On December 7, 2007 we filed an administrative appeal of the IRS s proposed adjustments. We intend to vigorously pursue the appeal and, if necessary, resort to the courts for a final determination. See Note (G) of the Notes to the Consolidated Financial Statements for more information.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

STOCK PRICES AND DIVIDENDS

As of May 23, 2008, there were approximately 2,700 holders of record of our Common Stock which trades on the New York Stock Exchange under the symbol EXP.

The following table sets forth the high and low closing prices for our Common Stock as reported on the New York Stock Exchange for the periods indicated, as well as dividends paid during these periods:

	Fiscal Year Ended March 31, 2008			Fiscal Year Ended March 31, 2007		
Quarter ended:	High	Low	Dividends	High	Low	Dividends
June 30	$50.74	$44.15	$0.20	$74.30	$38.04	$0.175
September 30	$50.95	$35.67	$0.20	$46.62	$33.58	$0.175
December 31	$40.71	$33.95	$0.20	$44.73	$32.30	$0.175
March 31	$38.25	$29.05	$0.20	$49.39	$42.84	$0.175

The Dividends section of Item 7 Management s Discussion and Analysis of Financial Condition is hereby incorporated by reference into this Part II, Item 5.

SHARE REPURCHASES

Our Board of Directors has approved the repurchase of a cumulative total of 31,610,605 shares of our Common Stock since we became publicly held in April 1994. On November 7, 2006, the Board of Directors authorized us to repurchase up to an additional 5,156,800 shares, for a total authorization, as of that date, of 6,000,000 shares, of which 717,300 remain eligible for purchase at March 31, 2008. We repurchased 4,778,500 shares, 2,706,791 shares and 4,547,163 shares of Common Stock at a cost of $176.9 million, $100.4 million and $165.3 million in the years ended March 31, 2008, 2007 and 2006, respectively.

The total number of shares purchased in the table below represents shares of Common Stock repurchased pursuant to the Board of Director s authorization as amended through November 7, 2006. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares may be determined by our management, based on its evaluation of market and economic conditions and other factors. Repurchases may also be effected pursuant to plans or instructions that meet the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

Purchases of our Common Stock during the quarter ended March 31, 2008 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1 through January 31, 2008	772,200	$ 30.37	772,200	
February 1 through February 28, 2008				
March 1 through March 31, 2008				
Quarter 4 Totals	772,200	$ 30.37	772,200	717,300

The equity compensation plan information set forth in Part III, Item 12 of this Form 10-K is hereby incorporated by reference into this Part II, Item 5.

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PERFORMANCE GRAPH

The following performance graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph compares the cumulative 5-year total return provided shareholders on our common stock relative to the cumulative total returns of the Russell 2000 index and the Dow Jones US Building Materials & Fixtures index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on March 31, 2003 and its relative performance is tracked through March 31, 2008.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

On Eagle Materials Inc. Common Stock, The Russell 2000 Index
And The Dow Jones US Building Materials & Fixtures Index

* $100 invested on March, 31 2003 in stock or index, including reinvestment of dividends.

	Fiscal Year Ending March 31,					
	2003	2004	2005	2006	2007	2008
Eagle Materials Inc.	100.00	182.29	254.66	608.53	433.55	352.59
Russell 2000	100.00	163.83	172.70	217.34	230.18	200.25
Dow Jones US Building Materials & Fixtures	100.00	166.64	208.09	254.79	268.49	224.04

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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ITEM 6. SELECTED FINANCIAL DATA
SUMMARY OF SELECTED FINANCIAL DATA[(1)]
(amounts in thousands, except per share data)

	For the Fiscal Years Ended March 31,				
	2008	2007	2006	2005	2004
Revenues	$ 749,553	$922,401	$859,702	$616,541	$502,622
Earnings Before Income Taxes	144,384	304,288	241,066	158,089	102,123
Net Earnings	97,768	202,664	160,984	106,687	66,901
Diluted Earnings Per Share	2.12	4.07	3.02	1.91	1.19
Cash Dividends Per Share	0.80	0.70	0.40	0.40	2.15(2)
Total Assets	1,114,847	971,410	888,916	780,001	692,975
Total Debt	400,000	200,000	200,000	84,800	82,880
Stockholders Equity	405,687	546,046	464,738	485,368	439,022(2)
Book Value Per Share At Year End	$ 9.34	$ 11.40	$ 9.24	$ 8.88	$ 7.80
Average Diluted Shares Outstanding	46,145	49,787	53,330	55,884	56,208

(1) The Summary of Selected Financial Data should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements for matters that affect the comparability of the information presented above.

(2) Includes a special one-time $2.00 per share ($112.9 million total) dividend paid in connection with the Spin-off from Centex

Corporation.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

Eagle Materials Inc. is a diversified producer of basic building materials and construction products used in residential, industrial, commercial and infrastructure construction. Information presented for the three years ended March 31, 2008, 2007 and 2006 reflects the Company s four businesses segments, consisting of Gypsum Wallboard, Cement, Recycled Paperboard and Concrete and Aggregates. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions.

We operate in cyclical commodity businesses that are directly related to the overall economic environment. Our operations, depending on each business segment, range from local in nature to national businesses. We have operations in a variety of geographic markets, which subject us to the economic conditions in each such geographic market as well as the national market. General economic downturns or localized downturns in the regions where we have operations could have a material adverse effect on our business, financial condition and results of operations. Our Wallboard and Paperboard operations are more national in scope and shipments are made throughout the continental U.S. Our cement companies are located in geographic areas west of the Mississippi river and the Chicago, Illinois metropolitan area. Due to the low value-to-weight ratio of cement, cement is usually shipped within a 150 mile radius of the plants by truck and up to 300 miles by rail; though the rising price of diesel fuel may further restrict the truck shipping radius. Concrete and aggregates are even more regional as those operations serve the areas immediately surrounding Austin, Texas and north of Sacramento, California. Cement, concrete and aggregates demand may fluctuate more widely because local and regional markets and economies may be more sensitive to changes than the national markets.

Our cement segment experienced the highest net sales prices and sales volume in our history, which resulted in record operating earnings for the segment. Operating earnings in our gypsum wallboard segment; however, declined sharply due to reduced demand in the residential housing market, which resulted in an approximately 33% decline in net sales prices and reduced sales volumes during fiscal 2008. The decline in sales volume in the gypsum wallboard segment impacted our recycled paperboard segment, as sales of higher priced gypsum paper declined during the year, contributing to the decrease in operating earnings. Average sales prices for recycled paperboard increased during fiscal 2008; however the cost of recycled fiber also increased due to increased demand in China, offsetting much of the benefit of the price increases. Concrete and aggregate sales both decreased during fiscal 2008 as compared to fiscal 2007 primarily due to poor weather and weak demand in the northern California market. This market has been greatly impacted by the slowdown in residential construction, and a state budget crisis has delayed many infrastructure projects.

Demand for wallboard varies among regions, with the East and West Coasts representing the largest demand centers. Currently, the downturn in the residential housing market has negatively impacted our gypsum wallboard and recycled paperboard divisions by reducing the demand for gypsum wallboard nation wide. This decrease has resulted in reduced wallboard industry utilization and decreases in the net sales price of wallboard during fiscal 2008. U.S. wallboard consumption in calendar 2007 declined by approximately 14%, from 35.0 billion square feet in calendar 2006 to 30.1 billion square feet in calendar 2007. The industry has recently added approximately 5 billion square feet of capacity and shuttered approximately 3 billion square feet of capacity, for a net increase in capacity of approximately 5%. Wallboard consumption in calendar 2008 is not expected to exceed wallboard consumption in calendar 2007, and for the first three months of calendar 2008 wallboard consumption has decreased by approximately 13% as compared to the first three months of calendar 2007. We believe our low cost position, coupled with our geographic locations in the Sunbelt region of the U.S., will allow us to continue to compete effectively throughout fiscal 2009 despite these adverse market conditions.

U.S. cement consumption continues to be strong, although consumption declined approximately 10% in calendar 2007 as compared to calendar 2006. Cement imports for calendar 2007 were 25.0 million short tons, approximately 37% below last year s imports. The U.S. Cement Industry has been sold out for the last thirteen years as a result of a domestic capacity deficit. Current U.S. cement demand requires imports of over

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10% to supplement domestic capacity. During fiscal 2008 we sold out our production for the 22nd consecutive year, and experienced record operating earnings in fiscal 2008. We benefited during fiscal 2008 from a full year s production of our expanded and modernized plant at Illinois Cement Company. This modernization enabled us to replace lower-margin purchased cement with higher-margin manufactured cement, as well as reducing our operating costs on all tons produced. We anticipate the price of imported cement to remain historically high this year due to high freight rates and increasing demand in world markets. Cement pricing increased slightly over the prior year, the third straight year of price increases, reversing a slight decline over the prior three years.

The Company conducts one of its cement operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas (the Joint Venture). The Company owns a 50% interest in the joint venture and accounts for its interest under the equity method of accounting. However, for purposes of the Cement segment information presented, the Company proportionately consolidates its 50% share of the Joint Venture s revenues and operating earnings, which is the way management organizes the segments within the Company for making operating decisions and assessing performance. See Note (F) of the Notes to the Consolidated Financial Statements for additional segment information.

RESULTS OF OPERATIONS

Fiscal Year 2008 Compared to Fiscal Year 2007

Consolidated Results. Consolidated net revenues for fiscal 2008 were down 19% from fiscal 2007 primarily due to lower sales prices and sales volumes in the Gypsum Wallboard segment. Fiscal 2008 operating earnings of $184.2 million decreased 44% from our record setting amount of $330.1 million last fiscal year mainly due to decreased Gypsum Wallboard operating earnings.

The following tables lists by line of business the revenues and operating earnings discussed in our operating segments:

	Revenues For the Fiscal Years Ended March 31,		Operating Earnings[1] For the Fiscal Years Ended March 31,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
Gypsum Wallboard	$ 342,550	$ 511,615	$ 45,954	$ 198,085
Cement	345,223	321,852	106,633	92,182
Paperboard	133,395	127,545	17,022	18,998
Concrete and Aggregates	87,640	97,323	13,075	16,249
Other, net	1,530	4,547	1,530	4,547
Sub-total	910,338	1,062,882	$ 184,214	$ 330,061
Less: Intersegment Revenues	(63,645)	(63,959)		
Less: Joint Venture Revenues	(97,140)	(76,522)		
Total	$ 749,553	$ 922,401		

(1) Prior to Corporate General and Administrative and interest expense.

Corporate Overhead. Corporate general and administrative expenses for fiscal 2008 were $18.8 million compared to $20.3 million for last fiscal year. The decrease was primarily the result of decreased incentive compensation and benefit costs due to lower operating earnings.

Other Income. Other income consists of a variety of items that are non-segment operating in nature and includes clinker sales income, non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items.

Net Interest Expense. Net interest expense of $21.1 million for fiscal 2008 was $15.7 million more than the $5.4 million incurred in fiscal 2007. The increase in expense is related primarily to the increased borrowings in connection with the $200 million private placement, which closed in October 2007 and the accrual of interest expense on our unrecognized tax benefits that are in dispute pending our tax audit.

Income Taxes. The effective tax rate for fiscal 2008 decreased to 32.3% from 33.4% primarily due to the increased impact of depletion on lower earnings.

Net Income. As a result of the foregoing, pre-tax earnings of $144.4 million in fiscal 2008 were 53% below fiscal 2007 pre-tax earnings of $304.3 million. Fiscal 2008 net earnings of $97.8 million decreased 52% from net earnings of $202.7 million in fiscal 2007. Diluted earnings per share in fiscal 2007 of $2.12 were 48% lower than the $4.07 for fiscal 2007.

GYPSUM WALLBOARD OPERATIONS

	For the Fiscal Years Ended March 31, 2008	2007	Percentage Change
	(dollars in thousands)		
Gross Revenues, as reported	$ 342,550	$ 511,615	(33%)
Freight and Delivery Costs billed to customers	(83,012)	(89,121)	(7%)
Net Revenues	$ 259,538	$ 422,494	(39%)
Sales Volume (MMSF)	2,395	2,610	(8%)
Average Net Sales Price [(1)]	$ 108.36	$ 161.86	(33%)
Unit Costs	$ 89.17	$ 85.97	4%
Operating Margin	$ 19.19	$ 75.89	(75%)
Operating Earnings	$ 45,954	$ 198,085	(77%)
Freight per MSF	$ 34.66	$ 34.15	1%

(1) Net of freight per MSF.

Revenues: The decrease in revenues during fiscal 2008 as compared to fiscal 2007 is due to lower sales volume and sales prices. Sales prices decreased throughout fiscal 2008 as demand, particularly in residential homebuilding and repair and remodel activities, declined sharply. This decline in demand, along with additions to capacity in the gypsum wallboard industry, resulted in decreased utilization and pricing.

Operating Margins: Wallboard operating margins decreased during fiscal 2008 as compared to fiscal 2007 primarily due to lower sales prices and higher unit costs. The increase in unit costs during fiscal 2008 as compared to fiscal 2007 was primarily attributable to increased raw material costs and costs associated with the start up of production at our Georgetown, South Carolina plant during the fourth quarter of fiscal 2008.

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CEMENT OPERATIONS

	For the Fiscal Years Ended March 31, 2008	2007	Percentage Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 345,223	$ 321,852	7%
Freight and Delivery Costs billed to customers	(16,307)	(20,612)	(21%)
Net Revenues	$ 328,916	$ 301,240	9%
Sales Volume (M Tons)	3,425	3,235	6%
Average Net Sales Price	$ 96.04	$ 93.13	3%
Unit Costs (including imports and purchased cement)	$ 64.91	$ 64.63	1%
Operating Margin	$ 31.13	$ 28.50	9%
Operating Earnings	$ 106,633	$ 92,182	16%

Revenues: Revenues increased during fiscal 2008 as compared to fiscal 2007, primarily due to increased sales volumes. Sales prices also increased during fiscal 2008 as compared to fiscal 2007, primarily due to price increases implemented in most of our markets during April 2007.

Operating Margins: Operating earnings and operating margins increased during fiscal 2008 as compared to fiscal 2007 primarily due to increased sales prices, coupled with increased sales volumes, offset slightly by higher purchased cement costs. Additionally, our sales mix was positively impacted by the increased production at Illinois Cement Company in fiscal 2008 as compared to fiscal 2007, which reduced our percentage of sales of low margin purchased cement to 19% in fiscal 2008 as compared to 26% in fiscal 2007.

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RECYCLED PAPERBOARD OPERATIONS

	For the Fiscal Years Ended March 31, 2008	2007	Percentage Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 133,395	$ 127,545	5%
Freight and Delivery Costs billed to customers	(2,379)	(2,950)	(19%)
Net Revenues	$ 131,016	$ 124,595	5%
Sales Volume (M Tons)	271	275	(1%)
Average Net Sales Price	$ 484.22	$ 452.99	7%
Unit Costs	$ 421.41	$ 383.91	10%
Operating Margin	$ 62.81	$ 69.08	(9%)
Operating Earnings	$ 17,022	$ 18,998	(10%)

Revenues: Net revenues increased by 5% during fiscal 2008 as compared to 2007 primarily due to increases in the average selling price per ton. The increase in the average selling price per ton during fiscal 2008 as compared to fiscal 2007 is due primarily to price escalators contained in our long-term sales agreement.

Operating Margins: Operating margins declined during fiscal 2008 as compared to fiscal 2007 primarily due to the increase in unit costs, which was offset slightly by an increase in average sales price per ton. The increase in unit costs during fiscal 2008 is primarily due to a 28% increase in fiber costs and an 11% increase in natural gas costs during fiscal 2008 as compared to fiscal 2007. Also, a change in the mix of products sold during fiscal 2008 negatively impacted operating margins. During fiscal 2008, sales of higher margin gypsum paper declined to 73% of total paperboard production from 79% during fiscal 2007. This decline is due primarily to the decline in demand for gypsum wallboard, and resulted in increased production and sales of lower margin linerboard.

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CONCRETE AND AGGREGATES OPERATIONS

	For the Fiscal Years Ended March 31, 2008	2007	Percentage Change
	(dollars in thousands)		
CONCRETE			
Gross Revenues	$ 61,518	$ 63,354	(3%)
Sales Volume (M Yards)	802	882	(9%)
Average Net Sales Price	$ 76.74	$ 71.81	7%
Unit Costs	$ 65.23	$ 60.71	7%
Operating Margin	$ 11.51	$ 11.10	4%
Operating Earnings	$ 9,230	$ 9,793	(6%)
AGGREGATES			
Gross Revenues, including intersegment	$ 26,122	$ 33,968	(23%)
Freight & Delivery Cost billed to customers	(9)	(406)	(98%)
Net Revenues	$ 26,113	$ 33,562	(22%)
Sales Volume (M Tons)	3,754	4,875	(23%)
Average Net Sales Price	$ 6.96	$ 6.88	1%
Unit Costs	$ 5.94	$ 5.56	7%
Operating Margin	$ 1.02	$ 1.32	(23%)
Operating Earnings	$ 3,845	$ 6,456	(40%)

Revenues: Declining sales volumes during fiscal year 2008 is the primary reason for the decline in revenues for both concrete and aggregates during fiscal 2008 as compared to fiscal 2007. Declines in concrete revenues were partially offset by increased sales price per yard in fiscal 2008, while the average net sales price of aggregates was relatively flat.

Operating Margins: Concrete operating margins increased slightly during fiscal 2008, despite increased unit costs during the year. The increase in average sales price per yard in fiscal 2008 was partially offset by the increase in unit costs during fiscal 2008 as compared to fiscal 2007. The increase in unit costs is due primarily to the increase in the price of cement and delivery costs during fiscal 2008.

Aggregates operating margins declined during fiscal 2008 as compared to fiscal 2007 due to increased crushing and plant costs, partially offset by increased sales prices.

GENERAL OUTLOOK

The Company expects that the current downturn in residential construction will continue, which will have an adverse impact on our fiscal 2009 operating results. During the first quarter of calendar 2008, wallboard shipments declined 12.6% as compared to the first calendar quarter in 2007. Additionally, we expect pricing to experience downward pressure as industry utilization is expected to remain in the low 70% range. During calendar 2007, approximately 3 billion square feet of capacity was removed from the marketplace; however, this was more than offset by the addition of 5 billion square feet of new capacity. Given the relatively low net sales price for gypsum wallboard at the current time, especially on the East Coast, and the excess capacity in the marketplace, it is possible that more capacity will be shuttered during 2008.

Worldwide demand for cement continues to remain strong. U.S. demand for cement declined 10% in calendar 2007 as compared to calendar 2006; however, demand is still expected to exceed domestic capacity by an estimated 10%, requiring imports to meet demand in calendar 2008. Cement demand in some U.S. regions continues to be negatively impacted due to the residential slowdown; however, the underlying demand in the majority of the markets served by our four cement plants remains at high levels due to infrastructure spending. Cement price increases that had been announced for the early part of calendar 2008 in most of our regional markets have been rescinded, due in part to poor winter weather in some of our markets. The cost of purchased cement is expected to increase during the remainder of calendar 2008 due to high freight rates and increased demand in world markets. Although continued increases in the price of purchased cement may adversely impact our operating margins on purchased cement sales, these increases are expected to create upward pricing pressure on the marketplace.

Low wallboard demand caused by the reduction in residential construction is expected to continue to adversely impact our recycled paperboard operations throughout calendar 2008. Additional increases in the cost of fiber and natural gas could adversely impact our paperboard operations as these two costs comprise a significant amount of our total production costs, as could further reductions of sales of higher margin gypsum paper to total paper sold. Any additional decline in demand for gypsum paper will potentially impact our operating earnings as we seek sales of alternative products that likely will have a lower net sales price. The completion of our Georgetown, South Carolina gypsum wallboard plant will now provide additional internal demand for gypsum paper that was not present in fiscal 2008.

We expect aggregate and concrete sales volumes to be depressed throughout calendar year 2008, particularly in our northern California markets, where both residential and infrastructure spending remain soft. We do not expect increases in infrastructure spending until the budget crisis in the state is solved, and residential housing is not expected to rebound significantly in calendar 2008. Despite these conditions, we do not expect significant changes in sales prices. The Austin market is stronger than the northern California market, but it too is expected to be soft during the remainder of calendar 2008 as infrastructure projects are completed and residential housing continues to slow.